

FDIC State Profile

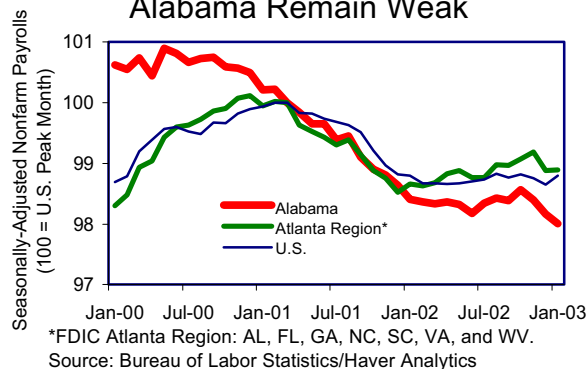
SUMMER 2003

Alabama

Alabama displayed some signs in early 2003 that it slowly may be emerging from its two-year economic downturn, but employment continues to shrink.

- After two consecutive years of declining payrolls, the pace of employment losses in Alabama on a year-over-year basis ebbed in early 2003. The slowing erosion in payrolls in the state's economy is mirrored in the downward trend in initial unemployment claims. Nonetheless, continued economic uncertainty nationwide, in part due to geopolitical events overseas, could weigh heavily on any recovery in the state during 2003.
- Alabama entered the recession before the nation. State payrolls peaked in mid-2000 (see **Chart 1**), more than six months before employment at the national level reached its zenith. The recent recession in Alabama has resulted in more significant job losses than during the 1990/1991 downturn.
- Although the severity of the state's economic contraction appeared to ease in early 2003, positive payroll growth has been limited to a few major sectors of the economy, including professional & business services, government, finance, educational & health services, and leisure & hospitality.
- Erosion in manufacturing employment continued into early 2003. Manufacturing losses have disproportionately affected Alabama's non-metropolitan counties, where manufacturing accounts for one-quarter of all jobs, compared to roughly 13 percent in metropolitan areas. Moreover, industries that have suffered the most have tended to be concentrated in rural and smaller metropolitan areas. The textiles and apparel industries have been hit hardest by the recent recession, with layoffs concentrated in **Florence** and

Chart 1: Employment Conditions in Alabama Remain Weak



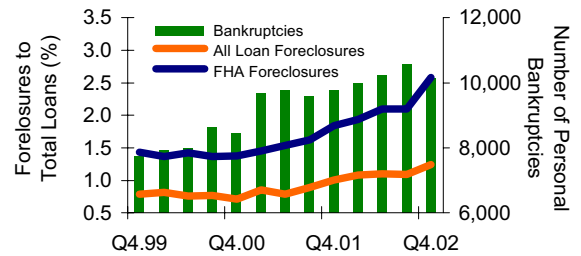
counties to the south. In contrast, transportation equipment manufacturing employment has continued to expand, particularly in larger metropolitan areas. Continued growth in this industry is likely, given a new Hyundai plant slated for **Montgomery**.

- Recent improvements in Alabama's economic conditions may be reflected in an apparent modest recovery in tax revenue collections. After three years of declining growth and failing to keep pace with inflation for two of those years, tax collection growth rose to 2 percent in 2002. Renewed weakness in the economy could jeopardize the increase in tax collections.

Community banks headquartered in Alabama reported record income levels, but deterioration in asset quality was apparent.

- Alabama community banks¹ achieved record performance in 2002. Net income grew 18 percent year-over-year to \$190 million, up from \$161 million at December 31, 2001. Consequently, average profitability measures at these banks were also on the rise as return on assets (ROA) and net interest margins (NIM) both experienced gains after falling off in 2001. Despite overall increases, the state's worst performers² saw profitability continue to erode with average ROA at these banks falling to a negative 0.54 percent. A surge in charge-offs primarily in the construction and development (C&D) and commercial and industrial loan portfolios resulted in higher provision expenses that wiped out gains in both interest and noninterest income at these institutions. Of the larger MSAs,³ the **Dothan** and **Mobile** areas were each home to two of the worst performing banks in the sample.
- Overall, asset quality is starting to show some signs of strain. Total charge-offs have risen for a third straight year finishing December 2002 at 0.62 percent, up slightly from a year earlier. In addition, more past due loan amounts are now at least 90 days old, which could lead to higher charge-off levels in the quarters to come. Deterioration in asset quality is being driven mostly by delinquent C&D and residential real estate loans as a weak manufacturing sector impedes job growth, which may be undermining consumer's ability to meet debt service obligations. Record personal bankruptcy filings and mortgage foreclosures have also added to loan delinquencies in these areas (see **Chart 2**).

Chart 2: Rising Level of Personal Bankruptcies in Alabama is Contributing to the Increase in FHA Foreclosures



Source: Mortgage Bankers Association, US Administrative Courts (Haver Analytics)

- Moderating loan growth in the state has not curbed the shift to a riskier loan mix as commercial real estate loans⁴ now comprise 23 percent of assets, up from 21 percent a year earlier. On a merger adjusted basis, nonresidential loans continued to be the most robust loan segment, growing 18 percent over the 12-month period ending December 31, 2002. Banks in the state have continued to add to these riskier portfolios, despite economic weakness. Although CRE delinquencies were manageable at period end, both charge-offs and noncurrent CRE loan levels have trended higher. Banks of most concern had a rising level of CRE loans over the 12-month period as well as a CRE concentration in assets of at least 25 percent. There were nine of these institutions representing 8 percent of the state's community banks at December 31, 2002.

¹ Community banks have assets less than \$1 billion and exclude specialty institutions and thrifts.

² The state's worst performers consist of banks in the 10th percentile as measured by return on assets.

³ Metro areas with at least five institutions.

⁴ Commercial real estate loans consist of construction and development, nonresidential real estate, and multifamily loans.

Alabama at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	163	170	170	168	172
Total Assets (in thousands)	203,616,416	192,022,907	183,674,667	179,758,400	143,044,354
New Institutions (# < 3 years)	8	9	7	4	2
New Institutions (# < 9 years)	14	13	10	7	6
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.46	9.45	9.64	9.65	9.31
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.98%	3.17%	3.13%	2.91%	2.97%
Past-Due and Nonaccrual >= 5%	30	40	36	33	33
ALLL/Total Loans (median %)	1.33%	1.28%	1.26%	1.25%	1.26%
ALLL/Noncurrent Loans (median multiple)	1.50	1.32	1.59	1.50	1.48
Net Loan Losses/Loans (aggregate)	0.48%	0.50%	0.37%	0.35%	0.29%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	9	12	12	10	8
Percent Unprofitable	5.52%	7.06%	7.06%	5.95%	4.65%
Return on Assets (median %)	1.07	1.00	1.09	1.11	1.12
25th Percentile	0.80	0.63	0.76	0.83	0.86
Net Interest Margin (median %)	4.26%	4.01%	4.16%	4.21%	4.24%
Yield on Earning Assets (median)	6.77%	7.92%	8.44%	8.01%	8.32%
Cost of Funding Earning Assets (median)	2.56%	3.92%	4.25%	3.86%	4.10%
Provisions to Avg. Assets (median)	0.28%	0.27%	0.21%	0.20%	0.21%
Noninterest Income to Avg. Assets (median)	0.71%	0.67%	0.69%	0.67%	0.68%
Overhead to Avg. Assets (median)	2.81%	2.86%	2.81%	2.83%	2.95%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	74.00%	73.06%	72.58%	69.72%	68.46%
Loans to Assets (median %)	61.63%	61.82%	61.84%	59.95%	57.12%
Brokered Deposits (# of Institutions)	43	35	43	30	27
Bro. Deps./Assets (median for above inst.)	3.64%	2.89%	2.50%	1.76%	1.31%
Noncore Funding to Assets (median)	24.54%	24.05%	24.25%	22.56%	17.81%
Core Funding to Assets (median)	63.87%	64.53%	64.30%	65.89%	69.76%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	105	108	109	108	110
National	20	23	24	25	28
State Member	26	27	25	23	22
S&L	5	5	5	5	5
Savings Bank	7	7	7	7	7
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	101	12,951,666	61.96%	6.36%	
Birmingham AL	20	167,952,192	12.27%	82.48%	
Mobile AL	8	805,130	4.91%	0.40%	
Dothan AL	7	886,316	4.29%	0.44%	
Montgomery AL	4	16,261,958	2.45%	7.99%	
Florence AL	4	782,532	2.45%	0.38%	
Decatur AL	4	1,600,798	2.45%	0.79%	
Tuscaloosa AL	3	497,692	1.84%	0.24%	
Huntsville AL	3	540,903	1.84%	0.27%	
Anniston AL	3	199,599	1.84%	0.10%	
Gadsden AL	2	284,460	1.23%	0.14%	
Columbus GA-AL	2	276,036	1.23%	0.14%	
Auburn-Opelika AL	2	577,134	1.23%	0.28%	